Accelerating Your Growth

Why Automating Tax and Compliance Solutions Are the “Hidden Heroes” of Retail Expansion

So many ways to grow

Merchants across categories are setting their sights on growth. They're looking to drive brand awareness and acquire more customers in new markets so they can boost market reach and penetration.

However, brands' final strategies and approaches vary based on their target audiences and their unique brand differentiators. For example, some brands are maximizing revenue potential by expanding their product set — and in some cases, by venturing into services. Others are testing new channels and touchpoints, such as marketplaces and virtual gaming platforms like Roblox, to reach and resonate with new audiences and demographics. And with sustainability at the forefront of many consumers' minds, some brands are meeting their new expectations — and extending the lifespan of their products — by offering re-commerce solutions such as resale services and even product refurbishment.

There are so many ways for your business to grow, especially online. However, with each new expansion path, there are operational nuances that will impact your success, especially if you don't have the appropriate systems in place. **Tax accuracy and regulatory compliance, for instance, are often overlooked but are the leading drivers of operational risk, customer headaches, and even financial penalties.**

This E-book will shine a spotlight on the tax complexities that emerge as brands venture into new channels, products, and experiences online. Learn how tax automation and compliance solutions will help you:

- Address the unique tax requirements across new commerce channels and experiences
- Improve operational efficiencies and streamline the sales journey
- Mitigate financial risk
- Optimize your path to growth

New channels, products, and experiences

Brands are developing holistic omnichannel strategies that allow them to embrace different selling channels, services, and engagement touchpoints. And when they invest, they see a tangible impact on their businesses.

An omnichannel approach enables merchants to improve customer retention (31%) and acquisition (37%), according to respondents of *Retail TouchPoints'* annual Omnichannel Benchmark Survey. The most significant benefits include seamless experiences aligning to consumer demand (40%) and the ability to quickly react to business and market changes (41%).

Add new channels

- Ship-from-store fulfillment experiences
- E-commerce
- Marketplaces

Move into new regions

- New states
- New countries
- New tax regimes

Offer new products

- New categories
- New services and experiences
- Re-commerce and refurbishment services

Deliver new experiences

- Gaming platforms
- Social commerce
- Retail media and shoppable content
- Virtual showrooms
- Pop-up shops and activations

To effectively invest in new digital channels and experiences, brands need to assess and prioritize them based on their unique brand promise, their current product mix, and the wants and needs of their customers. Once they identify their expansion priorities, brands need to integrate them into a seamless customer journey that comes to life via a consistent look and feel, inventory assortment, content, product pricing, delivery options — and yes, even taxes and fees.

However, many merchants have organizational silos and disparate systems that create a disjointed view of the customer experience as well as back-end operations. These disconnects not only create frustration for customers; they open organizations up to financial risk that can prevent them from reaching their full growth potential.

"It's very important for a retail brand to have consistent, streamlined, and frictionless customer experience," noted Pete Olanday, Director, Vertex Consulting. "In the past, all these channels were independent silos, with their own P&L. But if I order something and have it delivered to my home or even my business location, I now expect the same tax to be calculated and applied as if I drove over to a store to complete the purchase in-person [or vice versa]. It's challenging for a lot of organizations that have very siloed and disparate operations because the tax gets more complicated, but it needs to be consistent for the customer."

With growth comes tax complexities

For any organization, researching and implementing changes requires time, data consolidation, and labor-intensive system updates. Tax complexities come with the addition of new entities, selling channels, distribution chains, and service or product lines — a new set of tax rules and regulations requiring tax department research, decision modeling, and system implementation which IT needs to implement and maintain.

If done improperly, strategic business planning can lead to fines, penalties, unforeseen expenses, liability, and profit erosion. This results when organizations have not evolved their tax management and compliance to address the nuances of these different growth vehicles and the distinct operations of their businesses.

The complexities of expanding online and in stores

Brands need to manage and respond to tax requirements across multiple channels and jurisdictions. Legislation updates are made within each country, state, province, district, etc., and are often based on new commerce growth channels and opportunities. For example, some jurisdictions have established new guidelines for marketplace sellers and platforms, while in other jurisdictions, real-time reporting is required.

There are even nuances with omnichannel fulfillment: buyers are charged different taxes depending on their location, as well as where a specific store or distribution center is located. For example, with buy online, pick-up in store orders, sales tax must be calculated based on the customer's pickup location, not their shipping address. And what about applying exemption certificates or handling B2B transactions? Retailers may overlook or underestimate the execution of tax management, leading to potential issues with consistency and compliance.

The complexities of embracing new commerce platforms and communities

Channels like Roblox are embedding commerce into community-driven experiences. They are even allowing brands to create digital goods such as skins for avatars, creating a new revenue stream for businesses — and a new shopping channel for consumers. These virtual items have different tax rates than their physical counterparts, and brands need to know and apply tax rates and rules at the deemed place of supply in order to maintain compliance.

"With this cross-platform, cross-channel experience where [customers] traverse multiple channels within the same transaction, you can ship from essentially anywhere," Olanday explained. "All of those different components and data elements that are required for tax calculation are all moving targets. That is what makes it so complex."

The complexities of venturing into services and experiences

More retailers are thinking about how they can bundle products and services together. Taking this approach enables them to fully immerse customers into the brand experience, ultimately driving long-term customer engagement and loyalty.

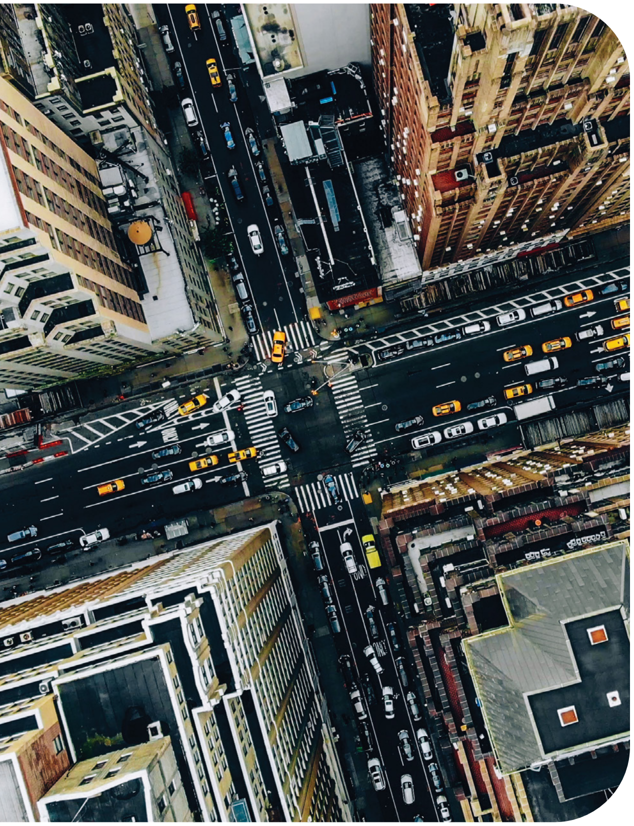
Bundling services and experiences can undoubtedly help you boost customer acquisition and basket sizes, but there are tax-related complexities that every business needs to know and respond to. For example, an outdoor sporting goods company that wants to sell hiking trips and tours will have to understand the different tax rates for services versus products, according to Olanday.

The complexities for enterprise organizations

Even the world's largest and most sophisticated retail organizations still rely on siloed and inefficient processes. Tax teams, which generally operate apart from other business departments and teams, are required to research tax updates and request IT make specific changes to technology systems or update ordering processes. This often leads to errors in the transfer and implementation of up-to-date information. Not to mention, it can take days, if not weeks, for IT to make updates because their time and bandwidth are already stretched thin.

The complexities for smaller organizations

Within smaller organizations, the entire tax team consists of one or two people (maybe even an IT resource) who are tasked with researching and manually updating tax changes within their e-commerce platforms, enterprise resource planning (ERP) systems, or point-of-sale (POS) systems. Often this can be multiple product, rate, and jurisdiction tables.



The complexities of mergers and acquisitions

Some retailers expand their footprint and grow market share through mergers and acquisitions. In fact, 52% of consumer markets CEOs plan to make at least one acquisition over the next three years, according to PwC. If acquired entities have an online footprint — or any kind of global presence, for that matter — the investing company will need to deal with incorporating entities and managing the complexity of registrations, situs, supply chain, vendor lists, customer certificates, disparate tax treatment, collection, and filing of necessary taxes, plus more.

The complexities of sustainability

Up to 71% of executives in consumer industries say they feel "strong pressure" from clients and consumers to act on climate change. As a result, 54% have invested more in sustainability efforts year over year, according to Deloitte. Many jurisdictions also are now imposing environmental fees for specific product categories — something that all businesses need to consider as they expand into new markets. For example, states in New England impose a recycling fee for mattresses, while South Carolina has implemented an "exchange tax" so consumers can have old appliances taken away when they purchase new ones.

Lacking the proper tools, systems, and solutions, most tax teams today are stuck with exhaustive, manual processes and complex workflows. These cumbersome processes take them away from strategic, big-picture work. Not to mention, they open the broader business up to compliance risks and fines.

The key to driving efficiencies and maintaining compliance

With every new channel and experience, brands incorporate tax strategy. Each addition has its own specific set of rules and requirements per transacting jurisdiction. These standards are always evolving, which means tax is a dynamic, ever-changing function. One of the most referred-to examples to illustrate this evolution is the South Dakota v. Wayfair ruling from the U.S. Supreme Court. The state wanted to capitalize on the revenue growth (and tax benefits) of Wayfair sales, which didn't have a physical presence but *did* have a significant e-commerce influence. It is because of this ruling that e-commerce businesses need to collect and remit sales tax for transactions made in every state where they reach a specific economic nexus regardless of their physical presence in that state.

If brands strive to expand overseas, they also need to be mindful of global intricacies, too. For example, you must adapt to value-added tax complexity overseas and comply with the implementation of e-invoicing rules in the European Union, among other changes.

Of course, these are only a few of a complex web of laws — and there are undoubtedly more on the way. A small tax team that relies on old-school tools and manual processes spends a lot of time and effort maintaining basic operations. Team members are more likely to make basic data entry errors, which opens the business up to audit risk. These manual and time-extensive processes also prevent them from being fully on top of new tax laws and ever-changing rates.

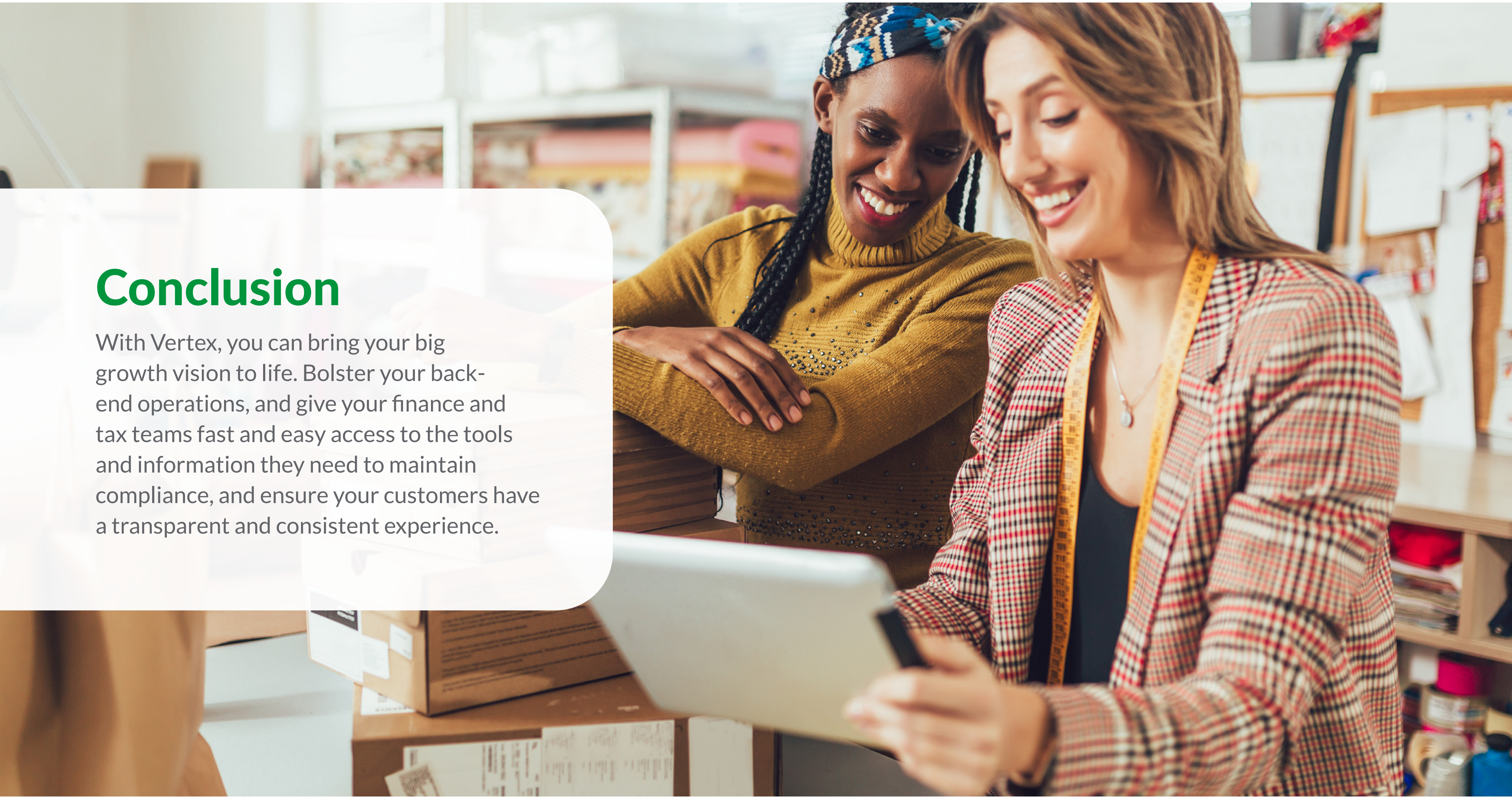
Tax automation solutions can reduce this burden for tax and IT teams, while maintaining compliance as the business grows and expands across territories and channels. While these solutions start with tax determination, they also offer solutions for downstream processes like compliance.

A single third-party tax determination engine can be integrated into all your e-commerce, ERP, and POS systems to deliver consistent tax calculations according to the latest rules and rates for each location — even for the most complex transactions. Integrated solutions also can be added for exemption certificate management, monthly returns, and invoicing/e-invoicing.

Adopting tax automation removes tax research and content updates from the internal tax and IT teams. And since tax content is automatically updated by the solution provider, you can be assured of the latest regulatory compliance.

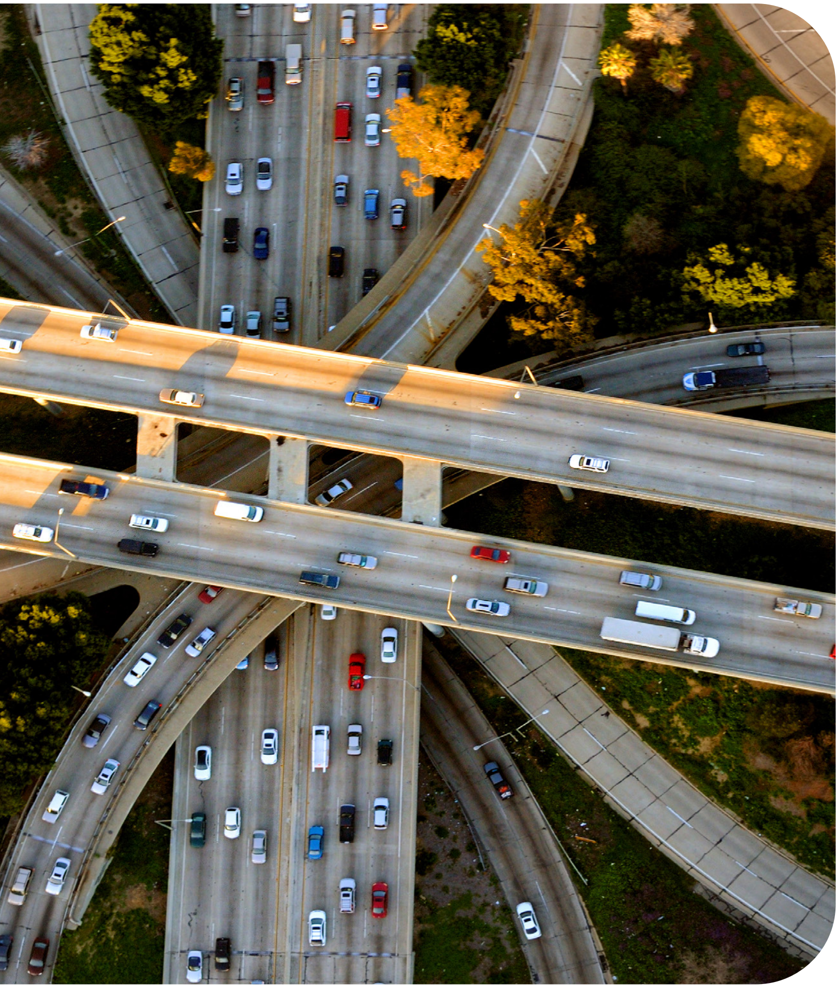
How tax automation tackles complexities

Before Tax Automation	After Tax Automation
The tax team goes to states' Department of Revenue sites every month to look up tax rate changes.	Content is automatically delivered monthly in the tax determination solution so team members can "turn on" the latest, most accurate rates as they expand into new markets and product lines. Even new environmental fees are automatically applied.
The tax team requests IT make these changes manually (either keyed in or uploaded via Excel) to e-commerce, ERP, or POS systems.	Tax content no longer resides in individual e-commerce, ERP, or POS systems. The tax rules, rates, and place of supply logic are continually updated in a single tax engine which is integrated with each of the transaction systems.
During the month-end filing process, transactions need to be manually collected and uploaded, which creates a higher risk of audits, fines, and penalties. And if an audit is mandated, the team has to collect all reporting and hope they don't miss any critical information.	Tax information is aggregated in the tax engine to support returns preparation. In the event of an audit, team members can pull a comprehensive report with all transactions and taxes, so they can feel confident (and less overwhelmed) during the process.
The process continues every month, and the tax team makes an effort to account for new laws or updated rates.	Tax automation enables retailers to ensure they display accurate tax amounts across all channels and in real-time based on consumers' unique behaviors, locations, and fulfillment preferences.



Conclusion

With Vertex, you can bring your big growth vision to life. Bolster your back-end operations, and give your finance and tax teams fast and easy access to the tools and information they need to maintain compliance, and ensure your customers have a transparent and consistent experience.



How Vertex can help

Vertex is a global tax technology provider with solutions that support a tax control framework across each step of the tax lifecycle, including:

- **Product categorization** to streamline the product mapping process
- **Address cleansing** to improve tax calculation accuracy
- **Complex tax determination** for sales and purchasing
- **Liability determination** to support accurate compliance on complex transactions
- **Exemption management** including tax calculation functionality and document management tools
- **Invoicing and billing** to meet local regulations
- **E-invoicing** to support emerging local mandates around the world
- **Periodic returns** to streamline monthly compliance
- **Audit defense reporting** to reduce workload and improve audit performance
- **Tax data and analytics** to support compliance and inform business decisions

We also offer flexible deployment models to fit your needs (on-premise, hosted, or public cloud all with hybrid Cloud-Edge extensions).

For more information on Vertex solutions built for retail, visit vertexinc.com/solutions/tax-solution-retail.

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